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REVIEW OF THE UNFPA POLICY ON INDIRECT COST RECOVERY

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I. INTRODUCTION

1. In decision 2005/12, the Executive Board of UNDP and of UNFPA endorsed, on an interim basis, the UNFPA-specific implementation of the harmonized cost-recovery principles, consisting of a rate of 5 per cent on nationally executed cost-sharing expenditures financed by programme countries, and a rate of 7 per cent on all other co-financed expenditures. In the same decision, the Board encouraged UNFPA to intensify consultations for further harmonization of cost-recovery principles within the United Nations Development Group (UNDG). In addition, the Board requested UNFPA to review the implementation of the new policy on indirect cost recovery, and to prepare a report to the Board, for presentation at the annual session 2007. This report reviews the UNFPA policy on indirect cost recovery and also includes an update on the status of harmonization of cost-recovery policies.

II. HARMONIZATION OF COST-RECOVERY POLICIES

2. In document JIU/REP/2002/3, *Support costs related to extrabudgetary activities in organizations of the United Nations system*, the Joint Inspection Unit (JIU) encouraged the United Nations system to harmonize its approaches to indirect cost recovery. While the JIU refrained from proposing a unified rate across the United Nations system, it recommended a consistent approach to cost recovery. Accordingly, UNFPA has endeavoured to harmonize cost-recovery principles and definitions. The revised policy is simple, clear and transparent, and the applicable rates satisfy the JIU core principle of avoiding cross subsidization of different funding modalities.

3. In 2005, a UNDG working group, consisting of representatives of UNDP, UNFPA, the United Nations Children's Fund, the United Nations World Food Programme, and the United Nations Educational, Scientific and Cultural Organization (as an observer), met to develop options to further harmonize cost-recovery rates for multi-donor trust funds, joint programmes and joint offices. In its report (CEB/2006/HLCM/20), the working group concluded that the UNDG Executive Committee agencies have based their specific cost-recovery policies on harmonized cost principles. Cost recovery is generally applicable to variable indirect costs, to ensure that each source of funding ultimately bears all attributable costs. In the same report, the working group noted that the recovery rates in the UNDG Executive Committee agencies are harmonized and range from 5 per cent to 7 per cent.

4. The common methodology adopted by UNFPA for calculating the cost-recovery rate is based on the classification of support costs into: (a) direct costs; (b) fixed indirect costs; and (c) variable indirect costs. Depending on the ratio of regular (core) resources to "other" (co-financing) resources, the variable indirect costs are incrementally attributed to the administration of "other" resources. In order to further enhance the effectiveness and consistency of cost recovery, the UNDG Executive Committee agencies have adopted harmonized definitions of the costs underlying the recovery policy and the rate-determination models.

Harmonized cost definitions (as contained in document CEB/2006/HLCM/20)		
Direct costs	**Fixed indirect costs**	**Variable indirect costs**
All costs that are incurred for and can be traced in full to an organization's activities, projects and programmes in fulfilment of its mandate. Included are the costs of project personnel, equipment, project premises, travel and any other input necessary to achieve the results and objectives set out in programmes and projects.	All costs that are incurred by the organization regardless of the scope and levels of its activities, and which cannot be traced unequivocally to specific activities, projects or programmes. These costs typically include the top management of an organization, its corporate costs and statutory bodies not related to service provision.	All costs that are incurred by the organization as a function and in support of its activities, projects and programmes, and which cannot be traced unequivocally to specific activities, projects or programmes. These costs typically include services and administrative units, as well as their related system and operating costs.

5. A common understanding of which costs fall under each of the three categories above, and a consistent application of the above definitions, will ensure that cost-recovery rates are fully harmonized among the UNDG Executive Committee agencies.

III. UPDATE ON THE UNFPA COST-RECOVERY POLICY

6. As reported by UNFPA in document DP/FPA/2006/3, the level of co-financing income has increased steadily in recent years while the ratio of co-financing income to overall income remained stable, at about one third of overall resources. The growth in volume and the continued predominance of regular resources is an expression of donor confidence in UNFPA. As reiterated by the Executive Board in decision 2005/12, regular resources must remain the bedrock of contributions to UNFPA.

7. In 2005, UNFPA began to implement the new cost-recovery policy endorsed by the Executive Board in decision 2005/12. Donors, implementing partners and UNFPA staff appreciate the simplicity of the new framework. The applicable rates are different for host countries as well as for third-party procurement. The simplicity of the rate structure and the underlying rationale have shortened the time required to negotiate co-financing agreements. As soon as the UNDG finalizes the harmonized operational guidelines on permissible direct costs, UNFPA expects that these guidelines will further improve the management of co-financing funds.

8. In decision 2005/12, the Executive Board requested the Executive Director to prepare a report that: (a) reviews the indirect cost-recovery policy on the basis of the actual data from the Atlas system; (b) proposes amendments, as necessary, based on whether the goal of no cross subsidization is attained; and (c) indicates whether there are categories of co-financing activities that have significantly higher or lower indirect costs compared to the rates applied.

9. Even though UNFPA introduced the new cost-recovery policy in 2005, it could not be applied retroactively to existing co-financing agreements; therefore, the available data constitutes an amalgamation of the old and new policies. Thus, any conclusion reached about the adequacy of the new rate structure is preliminary and must be validated with more comprehensive data.

10. Using the same indirect cost-recovery model as elaborated in document DP/FPA/2005/5, *Recovery of indirect costs for co-financing*, UNFPA has estimated actual indirect costs to the Fund as percentage of co-financing expenditure. In this model, fixed costs do not increase with the volume of co-financed expenditure. For example, the Office of the Executive Director and the Division for Oversight Services operate irrespectively of the level of co-financing; therefore, all of their biennial support budget expenditures are considered fixed. The remaining UNFPA divisions devote their variable costs (total costs less fixed costs) to managing and administering both regular and co-financing resources. According to the approved methodology, variable costs are apportioned according to the relative share of co-financing to total resources. The variable costs attributed to co-financing resources represent the indirect costs that are eligible for recovery.

11. Based on this model, the amount required to recover indirect costs for 2006 was equal to 7.1 per cent of co-financed expenditures, while for 2005 the equivalent percentage was 6.0 per cent, with an average of 6.6 per cent for both years.

12. When compared to the required cost-recovery rate of 6.6 per cent, the actual cost-recovery rate based on expenditures against contributions from both donor countries and programme countries (excluding third-party procurement), was slightly lower, at 6.3 per cent. The slight difference can be attributed to the lower recovery rate of 5 per cent applicable to cost-sharing projects funded by programme countries

13. The above statistics indicate that actual recovery has been consistent with the required rate over two years; hence the objective of no cross subsidization has been achieved. Therefore, UNFPA does not wish to amend its present rate for its policy on indirect cost recovery.

14. Since indirect variable costs are by nature indirect, they cannot be directly linked to specific co-financing activities. For this reason, they can only be viewed as a single pool of costs – untraceable and non-attributable to any particular activity or programme. Any attempt to attribute any portion of this pool to a specific co-financing programme is arbitrary and inaccurate. Hence, UNFPA believes that it is not possible to determine categories of co-financing activities that have significantly higher or lower indirect costs.

15. Since the new cost-recovery rates have been in force for only two years, and taking into account the overlap with the old cost-recovery policy during this period, UNFPA will carry out a similar analysis in 2009, as part of its continuing review and monitoring of cost-recovery rates, to ensure that they are adequate and that no cross subsidization occurs.

16. The ability of UNFPA to successfully implement programmes and activities is limited and finite during a biennium. If the level of "other" resources increases beyond the established threshold, it will be necessary to have a corresponding increase in capacity to implement projects. While the variable indirect costs should fluctuate with the level of activities, the ability to increase indirect variable costs commensurate with the level of "other" resources is limited by the approved level of the biennial support budget. Hence,

there is a need for indirect cost-recovery amounts exceeding the threshold to be given to programme resources in order to augment capacity for the timely execution of projects. UNFPA will address this issue in the next biennial support budget.

IV. ELEMENTS OF A DECISION

17. The Executive Board may wish to:

(a) Recall decision 2005/12 on the recovery of indirect costs for co-financing;

(b) Take note of the present report (DP/FPA/2007/9) and of the status of implementation of the new cost-recovery policy;

(c) Welcome the progress made within the UNDG on the harmonization of recovery policies and urge the UNDG to reach a common agreement on what constitutes direct costs;

(d) Take note of the transparency and simplicity of the new cost-recovery policy, and reaffirm its endorsement of the new policy;

(e) Encourage UNFPA to continue its active involvement in the UNDG working groups on harmonizing cost-recovery policies;

(f) Encourage UNFPA to present proposals to the Executive Board, as part of the biennial support budget, 2008-2009, on how a portion of indirect cost recovery can be used to build capacity in programme implementation;

(g) Request UNFPA to provide to the Executive Board, at its second regular session 2009, an update on the UNFPA policy on indirect cost recovery.

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UNITED NATIONS POPULATION FUND

Extensions of country programmes

Note by the Executive Director

Summary

The present note contains information on the following: (a) the second one-year extension of the country programme for Lebanon; and (b) the second one-year extension of the country programme for Sudan.

In accordance with established procedures, the Executive Director approves the first one-year extension of a country programme, while requests for extensions for a second year are submitted to the Executive Board for approval.

The Executive Board may wish to approve the second one-year extensions of the country programmes for Lebanon and Sudan, as indicated in the attached table.

07-27055 (E) 260306

Extensions of UNFPA country programmes for which the approval of the Executive Board is sought

Country	Years covered by original country programme	Year covered by any extension already approved	Year(s) proposed for new extension	Extension		Reason and explanation		
				2nd one year	Two years	United Nations harmonization	In-country political development	Other
Lebanon	2002-2006	2007	2008	X		The outbreak of war in July 2006 and its aftermath, as well as subsequent domestic political unrest, have prevented the United Nations country team from completing the common country assessment (CCA) and the United Nations Development Assistance Framework (UNDAF). A second one-year extension of the country programme is therefore necessary. The United Nations country team in Lebanon and the principle national counterpart (the Council for Development and Reconstruction) are seeking to harmonize their programmes, both for a post-conflict recovery and reform programme in 2007, and for an additional bridging year, 2008, which will lead to the development of a new CCA/UNDAF. The new UNDAF will cover the period 2009-2013.	Several key events in 2006 affected programme development. These included: (a) military operations, which had an impact on the economy of the country and on social life; (b) the deployment of peacekeeping troops; and (c) political developments. These events led to frequent changes in the composition of the cabinet and to a polarization of the political situation.	UNFPA supports the implementation of the national recovery process that is aligned with government efforts, while developing longer-term strategies for national rebuilding and reconciliation, including supporting the implementation of the government reform agenda and the elaboration of a medium-term to long-term social development strategy. UNFPA implements its assistance in partnership with United Nations organizations, and supports humanitarian response efforts and post-conflict reconstruction.

Extensions of UNFPA country programmes for which the approval of the Executive Board is sought

Country	Years covered by original country programme	Year covered by any extension already approved	Year(s) proposed for new extension	Extension		Reason and explanation		
				2nd one year	Two years	United Nations harmonization	In-country political development	Other
Sudan	2003-2005	2007	2008	X		The next harmonized programme cycle, in which all the United Nations Development Group Executive Committee agencies will participate, will begin in 2009. The extension will enable UNFPA to align its new programme with partner agencies and emerging national priorities.	Achieving sustainable peace and security in Sudan and the implementation of the comprehensive peace agreement have been major challenges in 2006. Political developments and insecurity prevented the country from embarking on a more comprehensive reconstruction process. Insecurity has persisted in Darfur, despite the signing of the Darfur peace agreement in May 2006.	The second one-year extension of the country programme will enable UNFPA to implement projects and activities in response to emerging needs in Sudan. UNFPA continues to be the lead partner with national entities in conducting the national census. In addition, UNFPA maintains its role as lead coordination agency in combating gender-based violence. UNFPA has strengthened its programme operations in Darfur and has also established an office in southern Sudan.

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Extensions of country programmes in the Asia and the Pacific Region

Note by the Executive Director

Summary

The present note contains information on the third one-year extension of the UNFPA country programme for Timor-Leste.

In accordance with established procedures, the Executive Director approves the first one-year extension of a country programme, while requests for extensions for a second or third year, or two-year extensions, are submitted to the Executive Board for approval.

The Executive Board may wish to approve the exceptional third-year extension of the country programme for Timor-Leste, as indicated in the attached table.

07-27064 (E) 260307

Extensions of UNFPA country programmes for which the approval of the Executive Board is sought

Country	Years covered by original country programme	Year covered by any extension already approved	Year(s) proposed for new extension	Extension	Reason and explanation		
				Exceptional third year	United Nations harmonization	In-country political development	Other
Timor-Leste	2003-2005	2006-2007	2008	X	In line with harmonization, UNDP and UNICEF, in addition to UNFPA, are also seeking an additional one-year extension of their current country programmes in Timor-Leste.	The current national development plan (2002-2007) was adopted at the time of independence in May 2002. The Government of Timor-Leste has requested United Nations funds and programmes to harmonize their programming cycles with those of the Government.	Social and political upheavals, along with the precarious security situation in 2006, delayed the programming process in Timor-Leste. The current programme of assistance provides an adequate framework for UNFPA-supported projects in Timor-Leste during 2008.

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Extensions of country programmes in the Latin America and the Caribbean Region

Note by the Executive Director

Summary

The present note contains information on the second one-year extension of the UNFPA country programme for Haiti.

In accordance with established procedures, the Executive Director approves the first one-year extension of a country programme, while requests for extensions for a second year or two-year extensions are submitted to the Executive Board for approval.

The Executive Board may wish to approve the second one-year extension of the country programme for Haiti.

07-27727 (E) 290307

Extensions of UNFPA country programmes for which the approval of the Executive Board is sought

Country	Years covered by original country programme	Year covered by any extension already approved	Year(s) proposed for new extension	Extension		Reason and explanation		
				Second one year	Two years	United Nations harmonization	In-country political development	Other
Haiti	2002-2006	2007	2008	X		In line with harmonization, country programme extensions for an additional year (2007) were approved in 2006 for UNDP, UNFPA, UNICEF and WFP. UNDP, UNFPA and UNICEF are now extending their country programmes for a second year in order to align them with the government cycle.	Presidential elections were held in February 2006 and local elections were held in December 2006. The newly elected authorities have finalized an interim poverty reduction strategy paper, which constitutes the principle national planning framework until the final poverty reduction strategy paper is finalized in 2007-2008. The new United Nations Development Assistance Framework for 2009-2013 will thus be aligned with the poverty reduction strategy paper.	The current country programme and the 2004 midterm review of the programme provide an adequate framework for all UNFPA-supported projects in Haiti. The programme can easily be extended for an additional year.

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Extensions of country programmes in the Africa Region

Note by the Executive Director

Summary

The present note contains information on the one-year extensions of the country programmes for Burundi, Côte d'Ivoire, Niger and Nigeria. It also contains information on the two-year extension of the country programme for Botswana.

In accordance with established procedures, the Executive Director approves the first one-year extension of a country programme, while requests for extensions for a second year or two-year extensions are submitted to the Executive Board for approval.

The Executive Board may wish to take note of the one-year country programme extensions for Burundi, Côte d'Ivoire, Niger and Nigeria, as indicated in table 1, and approve the two-year extension of the country programme for Botswana, as indicated in table 2.

07-27290 (E) 020407

Table 1. One-year country programme extensions approved by the Executive Director

Country	Original programme period	Year proposed for extension	Reason and explanation		
			United Nations harmonization	In-country political development	Implementation and/or other issues
Burundi	2005-2007	2008	The one-year extension is being sought by the United Nations Development Group (UNDG)Executive Committee agencies to: (a) align the respective country programmes with the mandate of the United Nations Integrated Office in Burundi and the priority peace consolidation programme, 2007-2008; and (b) harmonize the programmes with the current poverty reduction strategy paper, which covers 2006-2008.	Security Council resolution 1719 established a United Nations Integrated Office in Burundi as of January 2007, to assist the ongoing peace-consolidation process. The Government prepared a priority peace consolidation programme, 2007-2008, which was endorsed by the Peacebuilding Commission and which is being funded through the Peacebuilding Fund.	The United Nations integrated strategy for peace consolidation in Burundi, 2007-2008, complements the priority peace consolidation programme of the Government. The strategy incorporates the priorities of Security Council resolution 1719 and the revised United Nations Development Assistance Framework (UNDAF). Implementation will be undertaken through a number of joint programmes that involve units in the United Nations Secretariat and United Nations organizations. The one-year extension of the UNFPA country programme will: (a) place increased emphasis on youth health and life skills; (b) make preparations for a population census in 2008; and (c) implement a joint programme to combat gender-based violence and strengthen the capacities of women as peacebuilding agents. The current country programme provides an adequate framework for this to occur.

Table 1 (Cont'd). One-year country programme extensions approved by the Executive Director

Country	Original programme period	Year proposed for extension	Reason and explanation		
			United Nations harmonization	In-country political development	Implementation and/or other issues
Côte d'Ivoire	2003-2007	2008	The harmonization of programme cycles is planned for 2009. The UNDG Executive Committee agencies, including UNFPA, have therefore requested one-year extensions of their programmes through the end of 2008.	Since September 2002, Côte d'Ivoire has faced a socio-political crisis that has had serious repercussions on the socio-economic conditions of the country. General elections, planned for 2005, were postponed twice; they are now scheduled for October 2007. With regard to the programming process, efforts to obtain improved data are under way. Preparatory activities for the fourth national population and housing census (2008) are ongoing. The Government is working to update and validate the poverty reduction strategy paper. The United Nations country team has therefore agreed with the Government to postpone the harmonized programme cycle to 2009.	There is a need for continued assistance in reproductive health, population and development, and gender. The one-year extension of the country programme will ensure continuity in UNFPA support, in order to respond to pressing needs in reproductive health, including HIV/AIDS; population and development; and gender. UNFPA will direct programme support to these priority areas and will also focus on decentralized activities. UNFPA will open an office in the central part of the country and will have sub-offices and focal points in other intervention districts. The current country programme provides an adequate framework for these activities to occur.
Niger	2004-2007	2008	Harmonization of the United Nations programme cycle in Niger has been in place since 2004. The UNDG Executive Committee agencies, in accordance with the decision by the Government, have decided to extend their programme cycles for one year,	For the past 10 years, Niger has had a stable political situation as a result of its democratization process, including improving women's participation in decision-making. However, in 2005, the country faced a food crisis, due primarily to climatic conditions and an invasion of locusts that severely affected its agricultural production. Consequently, the implementation of the poverty reduction strategy, 2002-2005, was delayed by one year.	The one-year extension of the UNFPA country programme will provide an opportunity to reinforce awareness of population and development interactions. It will also ensure the effective integration of population variables and related reproductive health programmes into the new poverty reduction strategy paper, as per the revised national population policy.

Table 1 (Cont'd). One-year country programme extensions approved by the Executive Director

Country	Original programme period	Year proposed for extension	Reason and explanation		
			United Nations harmonization	In-country political development	Implementation and/or other issues
Niger (cont'd)	2004-2007	2008	through 2008, in order to seek coherence and alignment with the second phase of the national poverty reduction strategy paper that is being developed.	Data collection for major research studies was also delayed, and the publication of data was issued in late 2006. The Government therefore decided that its second poverty reduction strategy paper will cover the period 2007-2011.	The Government is currently developing a national policy to reduce gender inequities that will constitute an important dimension of the new poverty reduction strategy. The current country programme provides an adequate framework for UNFPA activities during the coming year.
Nigeria	2004-2007	2008	Harmonization of the United Nations programme cycle in Nigeria has been in place since 2004. The UNDG Executive Committee agencies, in accordance with the Government, have decided to extend their programme cycles for one year, through 2008, in order to align them with the second phase of the national poverty reduction strategy paper that is currently being developed.	Nigeria has made noticeable progress in macroeconomic and socio-economic stabilization, as well as in structural reforms, while strengthening accountability mechanisms and institutions. The government reform agenda has created an enabling environment for economic growth and social development. The political transition process began in 2006, and national and state elections are scheduled for April 2007. A new administration is due to take office at the end of May 2007. A successful election will deepen and expand the reform process initiated by the current administration.	The one-year extension of the country programme will enable UNFPA to consolidate the gains of previous programmes to achieve the Millennium Development Goals. It will enable UNFPA to use the recently released census figures, which indicate a high population growth rate (3.2 per cent), to emphasize the need for population, reproductive health and gender issues to be at the centre of government efforts to reduce poverty (as articulated in phase II of government poverty reduction strategy). UNFPA will also provide assistance in processing, collating and producing local government population figures and in analysing the 2006 population and housing census and the post-enumeration survey. The current country programme provides an adequate framework for these activities.

Table 2. Extensions of country programmes for which the approval of the Executive Board is sought

Country	Original programme period	Year proposed for extension	Reason and explanation		
			United Nations harmonization	In-country political development	Implementation and/or other issues
Botswana	2002-2007	2008-2009	The current UNDAF ends in 2007, while the national development plan covers the period 2003-2009. In order to align itself with the government planning process, the UNDAF will be extended by two years. Individual country programmes of the UNDG Executive Committee agencies will therefore require two-year extensions, through 2009. During the UNDAF extension period, the United Nations country team will put in place the building blocks for "one team, one vision". Because of its middle-income status, Botswana is not attracting as many donors as it has in the past. Therefore, the Government is seeking stronger and more effective partnerships with the United Nations, particularly in the areas of HIV/AIDS, poverty, environment, gender and governance.	The middle-income status of the country has resulted in many donor agencies shifting their attention to more needy countries. In addition, the HIV/AIDS scourge has forced the Government and its development partners to concentrate resources on HIV/AIDS, to the detriment of other health priorities. Hence, the country still falls short of achieving the goals of the International Conference on Population and Development (ICPD) and the Millennium Development Goals. Other areas of concern are gender-based violence; rising unemployment, especially among youth, resulting in alcohol, drug and other substance abuse; teenage pregnancies, leading to unsafe abortions; crime; and migration.	UNFPA support is sought in the areas of data for development; sexual and reproductive health, including reproductive health commodity security; HIV prevention; the integration of sexual and reproductive health and HIV services; and gender concerns, especially gender-based violence and male involvement in sexual and reproductive health. The country programme extension will continue to address: (a) the availability of disaggregated data to monitor ICPD goals, selected Millennium Development Goals and other key development indicators (maternal mortality and gender-based violence, for example); (b) prevention of teenage pregnancies; (c) prevention of HIV/AIDS and the feminization of the epidemic; and (d) prevention of gender-based violence. UNFPA will lead in the area of behaviour change communication. The current country programme provides an adequate framework for these activities to occur.